DOCUMENT RESUME

ED 378 877 HE 028 026

AUTHOR	Schenet, Margot A.
TITLE	The Federal Pell Grant Program. CRS Report for Congress.
INSTITUTION	Library of Congress, Washington, D.C. Congressional Research Service.
REPORT NO	CRS-94-532-EPW
PUB DATE	1 Jun 94
NOTE	20p.
PUB TYPE	Legal/Legislative/Regulatory Materials (090)
EDRS PRICE	MF01/PC01 Plus Postage.
DESCRIPTORS	Educational Attitudes; Eligibility; *Federal Aid; *Federal Programs; Financial Support; Government Role; *Grants; Need Analysis (Student Financial Aid); Postsecondary Education; Program Descriptions; Program Implementation; Public Policy; *Student Financial Aid
IDENTIFIERS	*Higher Education Act Amendments 1992; *Pell Grant Program; Program Characteristics

ABSTRACT

This report discusses the Federal Pell Grant Program, the largest need-related federal postsecondary student grant program administered by the U.S. Department of Education, along with recent changes in the program authorized by the 1992 Amendments to the Higher Education Act. The program is designed to assist student from low-income families who would not otherwise be financially able to attend a postsecondary institution. The report reviews student eligibility, grant size, award rules, and need analysis, along with the characteristics of grant recipients. It also outlines the functions of postsecondary institutions participating in the program related to the control of fraud and abuse, application errors, and financial controls. Finally, the report discusses funding trends for the Pell Grant Program from 1980 through 1994, as well as suggestions for program improvement. It argues that increased funding levels are needed to restore Pell Grants as the foundation of federal student aid. (MDM)

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94-532 EPW

ED 378 877

CRS Report for Congress

The Federal Pell Grant Program

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HE 027 026

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THE FEDERAL PELL GRANT PROGRAM

SUMMARY

The Pell Grant program is the largest need-related Federal postsecondary student **grant** program administered by the U.S. Department of Education (ED), and is considered the "foundation" program for Federal student aid. The purpose of the program is to assist students from low-income families who would not otherwise be financially able to attend a postsecondary institution. Part of title IV of the Higher Education Act of 1965 (HEA), in 1992, the Pell Grant program was reauthorized through 1998, with changes to the rules for eligibility and awards.

In 1993-94, there were approximately 3.8 million Pell Grant recipients. The rules for Pell Grant eligibility tend to limit recipients to those with very low income. In addition to basic title IV eligibility requirements, award rules base the size of the grant on three factors: the maximum award as established by law, the "expected family contribution" (EFC) calculated in the need analysis formula, and the cost of attendance. For the 1994-95 award year, the student award is the lesser of the maximum ($2,300) minus the EFC or the cost of attendance minus the EFC. The result is that less than 10 percent of recipients and 5 percent of the funds go to students from families with incomes greater than $30,000 which is less than median family income nationwide. In 1991-92, more than half of all Pell recipients (53.6 percent) had a 0 EFC, as did 66.6 percent of independent recipients and 32.9 percent of dependent recipients.

Although the Pell Grant is provided to the student and not to the institution, the postsecondary institutions participating in the Pell Grant program have important functions. In the 1992-93 award year, 6,409 institutions participated, including 1,884 public institutions, 1,715 private institutions, and 2,810 proprietary institutions. These institutions are responsible for verifying the information on the Federal student aid application which establishes a student's financial eligibility; they are responsible for disbursing funds to students and ensuring that they do not receive more than they are eligible for and that refunds for students who withdraw are credited appropriately. Recently, concerns have been raised about fraud and abuse by institutions participating in the program.

In FY 1994, the Pell Grant program received funding of $6.5 billion. In real dollars, appropriations for the Pell Grant program have increased by 54 percent between 1980 and 1994. However, trends in the funding of the maximum individual grant established by appropriations statutes make clear that the large increases in funding have supported increases in recipients more than increases in the individual awards. The appropriated maximum grant has increased by 31 percent from 1980 to 1994; adjusted for inflation, it has decreased 25 percent, compared to the 54-percent increase in total funding.

The single most important issue facing the Pell Grant program is how to restore Pell Grants as the foundation of Federal student aid, as originally intended. If Congress decides to restore Pell Grants as a meaningful foundation, some way will need to be found to increase the size of the award to cover a larger proportion of the costs of attendance. Another issue that may continue to receive attention is the question of fraud and abuse, and particularly, institutional accountability within the program.

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THE FEDERAL PELL GRANT PROGRAM

INTRODUCTION

The Pell Grant program is the largest need-related Federal postsecondary student **grant** program administered by the U. S. Department of Education (ED), and is considered the "foundation" program for Federal student aid. The purpose of the program is to assist students from low-income families who would not otherwise be financially able to attend a postsecondary institution. Grants are provided directly to undergraduate students based upon financial need, as determined by a federally established need test. The Pell Grant program (originally called the Basic Educational Opportunity Grant program) was first authorized in the 1972 amendments to the Higher Education Act of 1965 (HEA). The 1992 Amendments to the HEA (P.L. 102-325) reauthorized the program through 1998 and made changes to the rules for eligibility and awards.[1] This paper describes how the program operates, including the rules for and the characteristics of student recipients, and the role of postsecondary institutions in delivering the awards. Funding trends are also reviewed and a concluding section looks ahead at possible issues for future changes in the program.

PROGRAM OPERATIONS

Student Eligibility

Title IV of the HEA contains basic eligibility requirements for Federal student aid.[2] In addition, the Pell Grant program has had requirements that further limit eligibility to the neediest students. In general, recipients must be undergraduates and enrolled with the purpose of obtaining a degree or certificate at an eligible institution. Students must also have a high school diploma, its equivalent, or a demonstrated "ability to benefit" from the training offered by the institution. Grants are available only to those who have not previously earned a bachelor's or professional degree. Thus, newly unemployed workers or those desiring to switch careers who already have an undergraduate degree are not eligible, but students may receive Pell funds for the completion of more than one vocational/certificate or nondegree program. The 1992 amendments to the HEA made changes that expanded eligibility somewhat, to better accommodate the growth in nontraditional students who often are in greatest need of aid, but previously had limited access to Pell Grants. Less-than-half-time students are now eligible for awards; the awards to part-time students are prorated on the basis of enrollment status (such a

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[1]For a summary of the changes made in HEA title IV student aid programs by P.L. 102-325 and other recent legislation, see U.S. Library of Congress. Congressional Research Service. *Recent Changes in Federal Student Aid*. CRS Report for Congress No. 94-10 EPW, by Margot A. Schenet. Washington, 1993.

[2]Section 484 of the HEA contains the general requirements of student eligibility.

provision was in the 1986 HEA amendments, but was subsequently overturned by appropriations language). Also, previous rules limiting the number of years of eligibility were removed, in recognition that fewer than half of college graduates complete an undergraduate program in 4 years and the current average is 6 years.[3]

Grant Size

As stated in the HEA, the purpose of the Pell Grant program is to provide an award that "in combination with reasonable family and student contribution and . . . (other Federal grant aid) will meet at least 75 percent of a student's cost of attendance . . . ." The statute sets a maximum award and rules for determining the actual award individual students will receive. The authorized maximum award was initially set at $1,400; for the 1994-95 academic year, it is $3,900, rising to $4,500 for academic year 1997-98. The average award actually made has increased from $270 for the beginning year of the program in 1973-74 to an estimated $1,492 in the 1994-95 award year. Although average individual awards have generally increased, the purchasing power of Pell Grants has been dwindling in relation to college cost. During the 1980s and 1990s, college costs have been increasing at an annual rate of between 5 percent and 8 percent, increases that have consistently outpaced inflation. In 1980-81, the average award ($882) paid 26 percent of total annual cost of attendance for a 4-year public institution ($3,409) as compared to an average award ($1,518) paying 18 percent of total costs ($8,562) in 1993-94.[4]

Concern about the declining purchasing power of grants and consequent student reliance on loans led to efforts to change the Pell Grant to an entitlement program during the reauthorization of the HEA in the 102d Congress. Supporters of this approach argued that only by creating an entitlement could students be guaranteed an increased maximum award that would cover more of the costs of education. These efforts failed. The successful opposition focused primarily on the fiscal impact, particularly violation of the "pay as you go" provisions for direct spending in the Budget Enforcement Act (P.L. 101-508), since the entitlement provisions proposed did not include sources of funds to offset the significantly increased new spending that would have been required. The 1992 amendments thus could only make a gesture towards restoring grant aid by increasing the

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[3]Another particularly contentious student eligibility issue that has continued to receive considerable attention is the eligibility of prisoners for Pell Grant awards to enroll in postsecondary programs. Prior to the 1992 amendments, there were no restrictions on such awards. In a floor amendment, the House version of the 1992 amendments eliminated prisoner eligibility; however, in conference the House receded to a Senate provision and the final amendments limit Pell eligibility to those incarcerated students not under a death sentence or serving a life sentence without eligibility for parole. The issue has continued to arise however, and amendments excluding all prisoners from the Pell Grant program have now been adopted in floor votes as amendments to Senate and House versions of the crime bill. Current ED data do not allow accurate counts of the number of prisoners receiving grants; ED estimates have ranged from 40,000 to 70,000 individuals nationwide.

[4]These data are the latest available on the cost of attendance for resident students (including room and board, transportation, supplies and other personal expenses) from the College Board which publishes annual surveys. The percentage of costs would be even less at 4-year private institutions.

authorized maximums; for the 1993-94 award year, the authorized maximum was increased to $3,700, with increases in $200 increments up to $4500 in the 1997-98 academic year. The minimum grant was increased to $400 with students eligible for awards of $200 to $400 to receive $400.[5]

Award Rules

Pell Grant award rules were also modified in 1992. Prior to the HEA reauthorization, the amount of a Pell Grant a student received was the lesser of 60 percent of the cost of attendance, the cost of attendance minus the expected family contribution, or the maximum grant minus the expected family contribution. Because many argued that the 60 percent rule unfairly restricted the amount of the grant for the poorest students who attended the least expensive schools, the amendments eliminated this rule. Also, in a gesture towards tuition sensitivity (i.e., making the award level reflect differences in tuition charges at different institutions), the new award rules provide that when the maximum increases above $2,400, the additional amount will be split between a living allowance and an amount dependent to some extent on tuition charges.[6] Thus, according to the new award rules, the amount of an individual student's award is based on three factors: the maximum award as established by law, the "expected family contribution" (EFC) calculated in the need analysis formula, and the cost of attendance. For the 1994-95 award year, the student award is the lesser of the maximum ($2,300) minus the EFC or the cost of attendance minus the EFC.

Need Analysis

The 1992 amendments also made significant changes in the need analysis formula used to calculate the EFC used in the Pell Grant program award rules. Prior to reauthorization, concern was raised that the Federal student aid application process had become increasingly complex and was itself creating barriers to an equitable student aid delivery system. Two separate formulas had been used to assess the extent to which families could contribute to the costs of a student's education, resulting in different "expected family contribution" amounts for the Pell Grant program and the other Federal student aid programs authorized by title IV of the HEA. The need analysis formulas used information about the student and his or her family's income and assets to determine the amount the family could reasonably be expected to contribute toward the cost of attendance at a postsecondary institution. The formulas also varied by the dependency status of the student. Independent students who were defined by certain automatic criteria, such as age (over 24-years old), or by meeting certain conditions, such as self-sufficiency, were not required to include their parents' income and assets, and their income was assessed at different rates than dependent students.

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[5]See the section below on program funding for a discussion of the difference between authorized and actual maximum awards.

[6]The statute provides that when the maximum is over $2,400, the award will be the sum of $2,400 and one-half the amount above $2,400 and the lesser of the other half or tuition plus other special expenses. See section 401(a)(3). This is unlikely to have any real impact on recipient award levels in the foreseeable future. Even at the authorized maximum of $3,900, the rule would lower the maximum only for those students with tuition costs below $750.

The HEA as amended now provides for a single new need-analysis formula to be used for the calculation of financial need for all Title IV programs in place of the previous separate formulas for Pell Grants and the other aid programs. The new formula is based on the Congressional Methodology formula previously used for guaranteed student loans and campus-based aid. Because the resulting expected family contribution amounts would have varied significantly from the Pell Grant assessment schedules, adjustments to the formula were made to ensure the minimum disruption in the distribution of Pell Grant recipients and award amounts. In addition, the 1992 amendments eliminated the conditional definitions of independence.

Generally, the changes in the need analysis formula were estimated to have a modest impact on the overall distribution of Pell Grant recipients and the size of awards. The negative impact was greatest on single, childless independent recipients, some of whom would no longer be eligible for an award. In addition, the change in the definition of independence also resulted in excluding from eligibility those former recipients who had qualified under one of the conditional definitions but were now required to include their parents' income in assessing their EFC. The impact of reduced or eliminated Pell awards for these individuals was mitigated somewhat by possible eligibility for campus-based aid and the ability to obtain new non-need-based unsubsidized Stafford loans. The 1993 Technical Amendments to the HEA (P.L. 103-208) also recognized this impact by providing that **subject to appropriations**, the students most affected could have Pell award amounts adjusted by financial aid administrators.[7]

CHARACTERISTICS OF RECIPIENTS

According to Pell Grant historical statistics, the number of recipients has increased from 176,000 in 1973-74 to over 2.7 million in award year 1980-81 and an estimated 3.9 million recipients in 1994-95. The growth in recipients has been due to a number of factors, including legislative changes in the need analysis formulae that expanded the number of applicants deemed eligible, and growth in overall postsecondary enrollment, particularly of nontraditional students, many of whom are older, independent students with low incomes eligible for Pell Grants. Although some of the changes in the need analysis formula made in the 1992 HEA amendments broadened access, the overall impact when combined with no increase in the maximum award appears to have been to hold down growth in recipients due to the decreases in eligibility of single independent students.

Despite continued liberalization of the need analysis formula to provide greater middle-class access to student aid, the interaction of the Pell Grant award rules and the limited increase in the appropriated maximum award have meant that in practice, Pell awards are focused on low-income students. For most recipients, cost of attendance is higher than the maximum, so the relevant award rule is the maximum minus the EFC,

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[7]For a more thorough discussion of the changes in the need analysis formula and the impact on Pell Grant recipients, see U.S. Library of Congress. Congressional Research Service. *Student Aid Application and Need Analysis: the Higher Education Amendments of 1992.* CRS Report for Congress No. 93-385 EPW, by Margot A. Schenet. Washington, 1993.

with a minimum award of $200.[8] Thus, if the maximum is $2,400, then any student with an EFC above $2,200 is ineligible for an award. Although the actual need analysis formula takes into account the number of family members, assets, etc., this means that families with incomes above $30,000 are unlikely to qualify. In fact, less than 10 percent of recipients and 5 percent of the funds go to students from families with incomes greater than $30,000 which is less than median family income nationwide. In 1991-92, more than half of all Pell recipients (53.6 percent) had a 0 EFC; as did 66.6 percent of independent recipients and 32.9 percent of dependent recipients. As table 1 indicates, most Pell Grant recipients have very low incomes.[9]

TABLE 1. Income Distribution of Pell Grant Recipients, 1991-1992
(percentages)

Income distribution	Dependent students	Independent students	All recipients
$9,000 or less	25.3	64.6	49.5
$9,001 to 30,000	60.2	33.2	43.5
$30,001 to 40,000	10.4	1.9	5.2
over $40,000	4.1	0.3	1.8

As one would expect, more of the independent Pell Grant recipients are in the lowest income categories, with almost two-thirds of such recipients having incomes of $9,000 or less. However, more than 85 percent of the dependent students come from families with incomes below the national median which was $35,939 in 1991.

In addition to having low incomes, a slight majority of Pell Grant recipients attended less-than-4-year institutions; 48.5 percent of recipients in 1991-92 attended at least 4-year institutions, 36.1 attended 2-year schools, and 14.7 percent attended less-than- 2-year schools. Enrollment of recipients in less-than-2-year schools, many of which are proprietary, has declined slightly in the last several years, even though the proportion in the less-than-4-year category has continued to increase.

PELL GRANTS AND OTHER FEDERAL STUDENT AID

As noted earlier, the intent of the Pell Grant program was to serve as the foundation for Federal student aid; this is reflected in the award rules that do not take the receipt of other aid into account in determining the Pell Grant award. One way to consider whether the Pell Grant program is indeed serving this purpose is to look at the proportion of all undergraduates in particular income categories that receive Pell Grants compared to the other major Federal aid program for needy students, the subsidized Stafford loan program.

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[8]The 1992 amendments changed the minimum to $400, but those applicants eligible for awards of $200 to $399 receive the $400 minimum.

[9]Data for the 1991-92 award year on Pell Grant recipients are from the *U.S Department of Education Pell Grant Program End of Year Report for 1991-92* which was released in July of 1993.

One can also look at the extent to which a Pell Grant is a part of the aid package for all those students who receive some form of Federal title IV assistance.[10]

As table 2 indicates, in 1989-90, almost two-thirds of dependent undergraduate students at the lowest income levels received a Pell Grant compared to one-quarter receiving a Stafford loan. Also, for independent students, fewer of whom generally received aid from these two programs because more of them were part-time students, almost two times as many undergraduates in the lowest income category received a Pell Grant. Table 2 does not indicate the considerable degree of overlap which exists in the recipients of these two need-based aid programs. Of the approximately 3.3 million Pell recipients in the 1989-90 National Postsecondary Student Aid Survey (NPSAS), 46 percent also got a need-based guaranteed student loan from the Federal Government. Conversely, of the 2.6 million Stafford recipients, 59 percent also got a Pell Grant.

TABLE 2. Proportion of Undergraduates Receiving Pell Grants Compared to Stafford Loans by Dependency Status and Income Category, 1989-1990
(percentages)

Dependency and Income	Percent receiving Pell Grant	Percent receiving Stafford Loan
Dependent Students		
Less than $10,000	60.4	25.5
$10,000-29,999	62.7	45.9
$30,000-39,999	10.7	17.8
$40,000 and over	4.6	20.9
Independent Students		
Less than $10,000	45.3	26.6
$10,000-29,999	31.6	25.6
$30,000-39,999	4.2	7.3
$40,000 and over	4.3	6.2
Total		
Less than $10,000	49.1	26.3
$10,000-29,999	42.2	33.2
$30,000-39,999	7.9	13.4
$40,000 and over	4.3	16.3

[10]Data on the proportion of all undergraduates receiving various kinds of aid and the overlap among recipients of specific Federal student aid programs are only available from the National Postsecondary Student Aid Survey (NPSAS). See: U.S. Department of Education. Office of Educational Research and Improvement. *Financing Undergraduate Education: 1990.* National Center for Educational Statistics, Statistical Analysis Report, NCES 93-201, May 1993. The information in tables 2 and 3 was produced by Rick Apling at CRS from the NPSAS 90 database.

Another way to look at the question of whether the Pell Grant program is serving as the foundation is to look at the undergraduates who are receiving any title IV assistance and see what percent of these are Pell recipients, as compared to those receiving loans. It is useful to also take into account the type of school attended, which to some extent can be thought of as a proxy for the cost of attendance.

Table 3. Proportion of Title IV Recipients Receiving Pell Grants Compared to Stafford Loans by Type of School Attended, 1989-1990
(percentages)

Type of School	Pell recipients	Stafford borrowers
4-yr. public	70	54
Less-than-4-yr. public	86	27
4-yr. private	56	67
Less-than-4 yr. private	73	49
Proprietary	70	73

As table 3 indicates, at public postsecondary institutions, the Pell Grant is most likely to be a part of the aid package, while at the more elite private colleges and universities, the Stafford loan is more likely to be the foundation of the aid package. At proprietary schools, title IV recipients are equally likely to have Pell Grants and Stafford loans. Thus, the role of the Pell Grant as a part of student aid is dependent, to some extent, on the type (and cost) of the institution attended.[11]

INSTITUTIONAL ROLE

Although the Pell Grant is provided to the student and not to the institution, the postsecondary institutions participating in the Pell Grant program have important functions.[12] In the 1992-93 award year, 6,409 institutions participated, including 1,884 public institutions, 1,715 private institutions, and 2,810 proprietary institutions. Although the largest number of schools are in the proprietary sector, their overrepresentation is not reflected in the proportions of funds and recipients in each of the three sectors, primarily because the proprietary schools tend to be smaller with fewer recipients. In addition, both the number of proprietary schools participating in the program, as well as the proportion of recipients and Pell Grant funds going to that sector have recently declined. It is likely that this is due in part to the imposition of new program integrity provisions in the guaranteed student loan programs which resulted in a number of proprietary schools losing

[11]An extensive analysis of the interaction of the type of institution, income level and type of aid was done by the Congressional Budget Office for the 1986 NPSAS. See: *Student Aid and the Cost of Postsecondary Education*, a Congressional Budget Office Study, Jan. 1991.

[12]Participating institutions receive a fee of $5 per Pell Grant recipient for administrative costs of the program.

loan program eligibility and subsequently closing their doors. Table 4 shows the trends in numbers of schools, funds and recipients in the Pell Grant program by sector. As can be seen, for the most recent year for which data are available, almost two-thirds of the funding and the recipients were in the public sector.[13]

TABLE 4. Number of Schools and Proportions of Pell Grant Program Recipients and Dollars by Control of Institution

Award Year	Public			Private			Proprietary		
	Schools	Recipients*	Dollars*	Schools	Recipients*	Dollars*	Schools	Recipients*	Dollars*
1984-85	1,807	61.4	56.2	1,905	19.4	23.0	2,371	19.2	20.8
1985-86	1,813	59.4	55.8	1,892	18.0	22.0	2,493	21.8	22.2
1986-87	1,824	57.6	54.4	1,858	17.6	20.8	2,725	24.8	24.8
1987-88	1,810	56.0	53.3	1,768	17.6	20.1	2,891	26.4	26.6
1988-89	1,825	57.6	55.5	1,738	18.2	20.3	3,063	24.2	24.2
1989-90	1,843	59.2	57.0	1,730	18.0	20.0	3,108	22.8	23.0
1990-91	1,852	60.4	58.1	1,715	17.6	19.8	3,018	22.0	22.1
1991-92	1,870	62.1	59.9	1,696	22.5	19.6	2,856	20.4	20.5
1992-93	1,884	64.3	62.0	1,715	17.6	19.5	2,810	18.1	18.5

*Percentages

Delivery System

After signing a participation agreement, participating schools have a number of responsibilities for administering the Pell Grant program. They are responsible for verifying the information on the Federal student aid application (true for all title IV programs) which establishes a student's financial eligibility; they are responsible for disbursing funds to students and ensuring that they do not receive more than they are eligible for and that refunds for students who withdraw are credited appropriately. At the beginning of each award year, most institutions are given an initial authorization of 50 to 60 percent of the prior year authorization of Pell Grant funds to cover the first payments of grants to students;[14] as the year progresses, the authorization is adjusted based on actual student recipients and payment data. Payment vouchers are submitted to ED a minimum of three to six times a year depending on the initial authorization level; schools have 3 months after the close of the award year to submit final vouchers.

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[13]Data for table 4 are from the Pell Grant End of Year Report, 1991-92, and the ED Pell Grant Program office.

[14]By statute, schools are allowed to drawdown as much as 85 percent of the initial authorization 24 days prior to the first class without any supporting documentation, see section 401(a) of the HEA.

Schools actually obtain funds from ED for disbursement through a separate disbursement system which allows them to drawdown funds electronically from a Federal account; cash on hand is not supposed to exceed that needed for immediate disbursement. Schools submit monthly or quarterly reports depending on the authorization level with summary expenditure and drawdown amounts; they have up to 21 months after the close of the award year to submit final reports that reconcile drawdown amounts and actual expenditures. While an institution's financial aid office is usually responsible for the student voucher information, it is the business office that handles the drawdown of funds and reporting of expenditures.[15] Institutions that may be having financial difficulties or with whom the Department has had problems in the past may be required to be on a reimbursement system of payment so that their access to Federal funds is more limited. Currently, approximately 340 institutions, most of them proprietary schools, are on this system which requires schools to document disbursement of their own funds to student recipients **prior** to receiving cash reimbursement from the Department.

Fraud and Abuse

In the late 1980s, ED's Office of Inspector General (OIG) identified title IV student aid programs as vulnerable to fraud and abuse and devoted substantial resources to audits and investigations of program participants and their oversight by ED. The Senate Permanent Subcommittee on Investigations, chaired by Senator Sam Nunn, held a series of hearings in the 101st Congress on student aid program abuses, and issued a report in May 1991 finding that the guaranteed student loan programs were "plagued by fraud and abuse at every level . . . ." More recently, the same subcommittee conducted hearings on the Pell Grant program and subcommittee staff testified to finding a "similar pattern of abuse" in the grant program.[16] These hearings pointed to a number of different issues related to the Pell Grant program and delivery system.

Gatekeeping

First, as had been noted in the previous hearings by this subcommittee, the gatekeeping procedures by which postsecondary institutions became eligible to participate in any of the title IV student aid programs were not preventing poor-quality or actually fraudulent institutions from program participation. Presumably, this issue of improving the process of institutional eligibility was dealt with in the 1992 HEA amendments which established a new Part H of title IV to improve program integrity by strengthening the

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[15]The delivery system description is taken from the Federal Student Financial Aid Handbook, and from testimony of the Inspector General to the Senate Permanent Subcommittee on Investigations, October 27, 1993, S. Hrg. 103-491. The Department is planning to use this system or something similar in implementing the new Federal Direct Loan program authorized by P.L. 103-66, the Omnibus Budget Reconciliation Act of 1993.

[16]See: Senate. Permanent Subcommittee on Investigations. *Abuses in Federal Student Grant Programs*. Hearings, 103d Congress, 1st Sess., Oct. 27-28, 1993. S. Hrg. 103-491, Washington, U.S. Govt. Print. Off., 1994.

gatekeeping procedures.[17] To the extent that these provisions will effectively eliminate many poor-quality institutions, the issue should be moot. In addition, the default rate cutoffs for institutional participation in the loan programs may also have had some impact on the quality of institutions participating in the Pell Grant program. Many of the institutions, particularly proprietary schools, eliminated from guaranteed student loan program participation ended up closing, as noted above, and thus, also no longer participate in the Pell Grant program.[18]

Application Errors

A second issue concerns errors in the student application process. Several studies have been done in the past of the rate of error in Pell awards attributable to institutions and to student applicants. Unfortunately, because of a lack of consistency across studies in methodologies and the definition of error, it is not possible to determine any trends. The most recent evaluation of award errors (including both under and over awards) in the 1988-89 award year reported that 9.9 percent of the Pell Grant dollars were awarded in error.[19] (For title IV overall, the percentage of dollars in error was slightly higher--10.9 percent.) Of this, student error accounted for 7.5 percent and institutional error for 2.6 percent. Much of the student error appeared to be due to mistakes in filling out the financial aid application, and the report recommended simplification of the questions, some of which was accomplished in the 1992 HEA reauthorization.[20] In addition, institutions are now being required to verify 100 percent of the student aid applications, where, in the past, they had been limited to 30 percent. The largest sources of institutional error involved not having or keeping certain required documents such as the statement of educational purpose, statement of Selective Service registration, or the financial aid transcript. These research studies have not addressed the question of deliberate falsification of student application data. Individual instances of such fraud surfaced at the Nunn hearings, but no reliable estimates of national prevalence are available.

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[17]See: U.S. Library of Congress. Congressional Research Service. *Institutional Eligibility: The Higher Education Amendments of 1992.* CRS Report for Congress No. 93-861 EPW, by Margot A. Schenet. Washington, 1993.

[18]Proposals continue to be made to eliminate high default-rate schools from participation in all title IV programs, or specifically from the Pell Grant program. This is likely to be less effective in the long term with the transition to the new Federal Direct Loan program. Under the new program, a wider variety of repayment options, including income contingent repayment, make defaults much less likely. See: U.S. Library of Congress. Congressional Research Service. *Student Loans: The Clinton Administration's Direct Loan Proposal.* Issue Brief No. IB93075, by Charlotte J. Fraas, (continually updated). Washington, 1993. 11 p.

[19]See: *Integrated Quality Control Measurement Project. Findings and Corrective Actions.* Prepared by Price Waterhouse in association with Pelavin Associates, Inc., and the Gallop Organization for the U.S. Department of Education, Sept. 28, 1990.

[20]See: U.S. Library of Congress. Congressional Research Service. *Student Aid Application and Need Analysis: the Higher Education Amendments of 1992.* CRS Report for Congress No. 93-385 EPW, by Margot A. Schenet. Washington, 1993.

Financial Controls

A third issue area which was the particular focus of the IG's testimony at the Nunn hearings concerns inadequate financial controls in the Pell Grant program delivery system. According to the IG, the lack of controls allows institutions to drawdown Federal funds in excess of their needs and use these funds for other purposes; fails to catch duplicate payments to the same student from different schools; and results in excessive initial authorizations because they are based on unreconciled data from the prior year. In addition, in the past, schools were not required to reconcile the drawdown and expenditure data reported to the ED payment system with the individual and summary payment voucher information reported to another unit within ED. The Department claims to be undertaking major improvements in these areas.

Finally, it should be noted that the broader issue raised by the Nunn hearings is the quality of the postsecondary programs in which Pell Grant recipients enroll and the extent to which Pell Grant recipients succeed in postsecondary education. Unlike the loan programs where default is a visible indicator of the recipients failing to attain their postsecondary goals, there are no success rate statistics available for Pell Grant recipients.

FUNDING

Appropriations Trends

As table 5 indicates, from FY 1980 to FY 1994, Pell Grant funding has increased by 168 percent, or 54 percent when adjusted for inflation.[21] The Pell Grant program is funded so that appropriations from one fiscal year are generally used during the following award period; i.e., FY 1994 appropriations primarily support awards for the 1994-1995 academic year (although unlike "forward funded" education programs, the funds are available for obligation for 2 full fiscal years).

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[21]See Appendix A in: U.S. Library of Congress. Congressional Research Service. *U.S. Department of Education: Major Program Trends, Fiscal Years 1980-1991*, coordinated by Paul Irwin. CRS Report for Congress No. 91-10 EPW, Washington, 1991, for a discussion of the method of adjusting for inflation.

TABLE 5. Trends in Pell Grant Appropriations, 1980-1994

Fiscal year	Budget authority (thousands of $)	Percent change since 1980	Percent change adjusted for inflation
1980	2,441,328	--	--
1981	2,604,000	6.7	0.2
1982	2,419,040	-0.9	-11.3
1983	2,419,040	-0.9	-14.9
1984	2,800,000	14.7	-5.0
1985	3,862,000	58.2	26.5
1986	3,579,716	46.6	13.2
1987	4,187,000	71.5	26.9
1988	4,260,430	74.5	23.2
1989	4,483,915	83.7	23.7
1990	4,804,478	96.8	26.3
1991	5,374,213	120.1	36.7
1992	5,499,690	125.3	35.9
1993	6,458,805	163.3	55.6
1994	6,553,566	168.0	53.7

Maximums

Pell Grant funding is complicated by the effort to ensure that eligible students will receive the amount of aid to which they are "entitled," based on the need analysis formula and award rules, despite the fact that the program is discretionary, with the level of funding dependent on appropriations. To ensure that everyone eligible gets the grant for which they qualify, appropriators reduce the level of the maximum award from that originally authorized to fit the available appropriations; for example, the maximum grant for FY 1994 was authorized at $3,900 in the 1992 Higher Education Act Amendments, but the appropriations act changed this to a maximum of $2,300 for FY 1994. Table 6 shows the difference between the authorized and appropriated maximums over the last 15 years. Comparing the **appropriated** maximum Pell Grant with the previous table on funding also makes clear that the large increases in funding have supported increases in recipients more than increases in the individual awards. The appropriated maximum grant has increased by 31 percent from 1980 to 1994; adjusted for inflation, it has decreased 25 percent, compared to the 54 percent increase in total funding.

TABLE 6. Pell Grant Maximum Awards, 1980-1994

Award year	Authorized maximum	Appropriated maximum
1980-81	$1,800	$1,750
1981-82	$1,900	$1,670
1982-83	$2,100	$1,800
1983-84	$2,300	$1,800
1984-85	$2,500	$1,900
1985-86	$2,600	$2,100
1986-87	$2,600	$2,100
1987-88	$2,300	$2,100
1988-89	$2,500	$2,200
1989-90	$2,700	$2,300
1990-91	$2,900	$2,300
1991-92	$3,100	$2,400
1992-93	$3,100	$2,400
1993-94	$3,700	$2,300
1994-95	$3,900	$2,300

Shortfalls

Appropriators use estimates from the ED in determining where to set the maximum and the amount to appropriate that will fund appropriate award levels for all eligible recipients. Unfortunately, ED estimates are not always accurate; i.e., the amount appropriated is not sufficient to fully fund even the appropriated maximum. When this occurs, ED has three options: reduce awards so that recipients receive some portion of the award they are entitled to, request a supplemental appropriation, or "borrow" from a subsequent year's appropriation to cover the "shortfall."[22] Since 1980, reductions in awards have taken place in 5 award years. In 1980-81 and 1981-82, awards were reduced by $50 and $80 respectively. In 1982-83, a stepped reduction took place and in 1990-91 and 1991-92, a linear reduction. Both of these latter methods provide progressivity in the reductions, so that recipients with greater need and larger awards receive smaller cutbacks. Although Congress eliminated ED's ability to reduce awards in the 1992 Higher Education

[22]This is feasible because the Pell Grant appropriation is available for 2 fiscal years: for example, while appropriations for fiscal year 1994 are generally for the awards in academic year 1994-95, the funds are available beginning in October 1993 and so can be used to cover the shortfall in funding for 1993-94 awards. A "surplus" may also occur if ED overestimates the number of recipients and receives an appropriation that is larger than necessary to fund awards for all eligible recipients; remaining funds may then be used to fund awards in the next year.

Act amendments, this authority was subsequently restored by Congress in the 1994 appropriations act.

Most recently, the Pell Grant program has suffered from an accumulated shortfall that, in 1993, was estimated at close to $2 billion. This estimate was subsequently reduced somewhat because of lower than projected program growth in subsequent years. Recent appropriations acts have provided funds to pay down the shortfall, and the 1995 budget request currently before Congress projects that with a requested appropriation of $118 million, the accumulated shortfall will be wiped out. The model that ED uses to estimate appropriations at a given Pell Grant maximum award level is based on student level applicant and recipient data from the most recent completed program year; various data elements are then adjusted based on inflation projections to produce cost estimates for the budget. A recent report by the Department on the model and Pell Grant cost estimates attributed the unusually large shortfalls in award years 1991-92 and 1992-93 primarily to economic conditions that are not accounted for in the model; other executive branch programs had similar forecasting problems because of the economic recession. ED is currently making efforts to improve the accuracy of its initial estimates and the timeliness of any adjustments required.[23]

LOOKING AHEAD

The single most important issue facing the Pell Grant program is how to restore Pell Grants as the foundation of Federal student aid, as originally intended. As discussed above, the rapidly increasing costs of postsecondary education and increasing fiscal constraints have effectively diminished the contribution of Pell Grants to the education of eligible students. If Congress decides to restore Pell Grants as a meaningful foundation, some way would need to be found to increase the size of the award to cover a larger proportion of the costs of attendance.[24] Efforts to make the program an entitlement, thus presumably assuring that the authorized maximum would be funded, failed during the 1992 reauthorization of the HEA. Given continuing budgetary constraints and the way the program operates, the only way to significantly increase the maximum without large increases in funding may be to limit eligibility in some way. In the past, proposals to restrict eligibility to those with the very lowest income have been rejected as have proposals to focus on needy students in traditional programs only, or to limit eligibility for grants to the first part of a student's program with loans in the later years when they are less likely to drop out. During reauthorization, some of the higher education community proposed changes to the award rules to reflect tuition charges more closely; this would allow the maximum to be increased, but would reduce awards to students at low-cost

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[23]See: U.S. Department of Education. *Report to Congress on the Estimation of Pell Grant Costs*. April 1993.

[24]At a recent hearing before the Senate Subcommittee on Education, Arts and Humanities, the General Accounting Office presented preliminary findings of analyses that indicate that increased grant aid could be particularly important in improving the college graduation rates of minorities. (U.S. General Accounting Office. *Grants Effective at Increasing Minorities' Chances of Graduating*. GAO/T-HEHS-94-168, Washington, 1994.)

schools. As a result, the proposal was rejected as discriminating against poor students at low-cost institutions. It is likely that these proposals and others to restrict eligibility in some way will continue to receive attention.

Another issue that may continue to receive attention is the question of fraud and abuse, and particularly, institutional accountability within the program. The major changes made in institutional eligibility during the 1992 reauthorization were intended to resolve this problem, and, indeed, may do so. Nevertheless, because the ED intends to use the same delivery system to implement the major new Federal Direct Loan program, attention is likely to continue to focus on the extent of financial controls and whether additional measures of institutional accountability are necessary.